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**Did charter schools game
the system? Many cashed in
on forgiven PPP loans they
didn't actually need**



Nearly all U.S. charter schools lost no money during the pandemic, but they got a \$1 billion windfall from the government forgiving their PPP loans.

Craig Harris USA TODAY

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America's charter schools received at least a \$1 billion windfall during the pandemic, an unneeded cash infusion for most from a federal program intended to bail out struggling small businesses, USA TODAY has found.

More than 1,000 of the publicly funded but privately operated schools that educate a fraction of U.S. children jumped at the chance to collect forgivable loans up to \$10 million after Congress created the Paycheck Protection Program in March 2020.

The hastily launched program was designed to save small businesses during the pandemic by helping them cover employee salaries and other costs.

While more than 90% of all eligible businesses across the country took the roughly \$800 billion in loan allocations, charter schools were among the first to get the money – ahead of mom-and-pop shops and minority-owned companies – during the early days of the crisis when the economy was cratering and many business owners scrambled to get a financial lifeline.

And charter schools were uniquely positioned to get the loans – even though they continually received funding from taxes, just like traditional public schools. But unlike those schools, which educate the vast majority of American children, charters qualified for what would eventually become pots of free money because they are considered a business.

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Did charter schools need PPP money?

A USA TODAY investigation, based on public records, found 93% of the charter schools may not have needed the money because they were in states that continued to fund them at the same level as before the pandemic, or at even higher levels in some cases. These schools also had access to federal COVID-19 grants.

Records show some of the private companies that operate the charter schools used the money to pad savings accounts or, in one case, hand millions of dollars to an investor.

USA TODAY's investigation is based on publicly available documents from 1,139 charter schools, as well as federal and state agencies, including 37 departments of education that oversee local funding for charter schools.

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It makes me furious because there was absolutely no reason for those (charter) schools to get that money and take it from small businesses. They successfully double dipped.

Carol Corbett Burris, executive director of the Network for Public Education Foundation

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"It makes me furious because there was absolutely no reason for those (charter) schools to get that money and take it from small businesses," said Carol Corbett Burris, a critic of charter schools and executive director of the Network for Public Education Foundation, an advocacy group in New York City. "They successfully double-dipped."

The loan program had enough leeway to allow small businesses, including charter schools, to qualify without showing any financial need. Federal regulations only required businesses seeking the loans to say they faced "economic uncertainty" and the money was necessary to support ongoing operations.

received the money, according to a January 2022 paper by the National Bureau of Economic Research (NBER) in Cambridge, Massachusetts.

Charter school advocates said operators were entitled to the loans, which ranged from \$150,746 to \$9.8 million, because they are technically private businesses.

"Funding is always difficult to secure but was even more challenging during the pandemic," said Nina Rees, president and CEO of the National Alliance for Public Charter Schools.

Rees added that charter schools typically receive less public funding than traditional school districts and Congress intended for them to get the money because of "the special nature of these unique public schools."

Critics have a different view.

A congresswoman who has monitored the program said that while the schools may have done nothing legally wrong, their decisions to take the money were "terrible." And one superintendent who leads an inner-city San Diego charter operation said that despite the legality, the behavior was unethical because financially strong charter businesses took money from those truly in need.



Carol Corbett
Burris



Empower College Prep, a charter school in Phoenix, Arizona, had over \$800,000 in PPP loans forgiven.

PAT SHANNAHAN/THE REPUBLIC

"At the time PPP became available, we had not suffered financially," said David Sciarretta, superintendent of the Albert Einstein Academies, which has 1,450 students from kindergarten to eighth grade at two San Diego campuses. "I saw PPP as a way to help small businesses, especially those in the service sector. ... There is a fiscal way to look at it, and there's a moral and ethical way to look at it."

While Sciarretta declined to call out specifics schools, USA TODAY found, for example, that at least 14 affiliates of the California-based charter chain Knowledge Is Power Program (KIPP) took a collective \$28.4 million in loans and had them forgiven at locations around the U.S.

Its national headquarters in San Francisco, meanwhile, saw its bottom line swell 56% to \$75 million during the first year of the pandemic.

its schools.



Over a dozen schools that are part of the charter-school chain Knowledge is Power Program had millions in PPP loans forgiven at locations around the U.S., even though its national headquarters in San Francisco saw its fund balance increase 55% to \$75 million during the first year of the pandemic.

THE TENNESSEAN

Which charter schools near you took federal PPP money?

Search USA TODAY's database of more than 1,100 charter schools that had Paycheck Protection Program loans totalling more than \$1 billion forgiven.

City

State

Any ▼

ZIP

SEARCH

Source: U.S. Small Business Administration
Craig Harris and Doug Caruso | USA TODAY

In Arizona, Primavera online charter school, which caters to at-risk students, got a \$2.2 million loan forgiven and then gave \$13.5 million in "shareholder distributions" the past two years to a parent company solely owned by the school's founder. For-profit Primavera, even after distributing that money, had \$4.8 million in cash and \$6.9 million remaining for future shareholder payouts as of June 30, 2021.

A spokesman for Primavera, in a statement to USA TODAY, said the school "is in compliance with applicable federal and state laws related to the use of public funds and accounting for the use of these funds."

Federal regulations said the loans were limited to companies with fewer than 500 employees or for larger employers that met specific small-business requirements such as being independently owned and not dominant in a field of operation. (Most charter schools are nonprofit companies, meaning they don't meet the exemption.)

But USA TODAY found several nonprofit charter school businesses employed more than 500 people, according to their publicly available tax filings made to the Internal Revenue Service.



'They didn't need the money'

The concerns about charter schools have spurred critics to pressure the federal Small Business Administration, which is in charge of forgiving the loans if companies used them to

The SBA declined repeated requests for interviews in response to questions about financially solid charter schools having their loans forgiven.

The agency in a late December email told USA TODAY it was committed to helping businesses reopen and that it had removed hindrances for small businesses to have their loans forgiven.

The SBA two months later, following additional questions from USA TODAY, blamed the Trump administration for issues of "fraud, waste and abuse" in the program. Yet, nearly all of the loan forgiveness has happened at the SBA during the Biden administration.

The agency, in a Feb. 22 email to USA TODAY, said it now "flags" high-risk loans for further analysis for all small businesses and that 144,000 loans totaling \$50 billion will be reviewed for "potential fraudulent activity, PPP loan eligibility, and compliance with forgiveness requirements."



The SBA and Treasury prioritized speed over scrutiny, and it's no secret that has led us to many issues.

U.S. Rep. Judy Chu, D-California

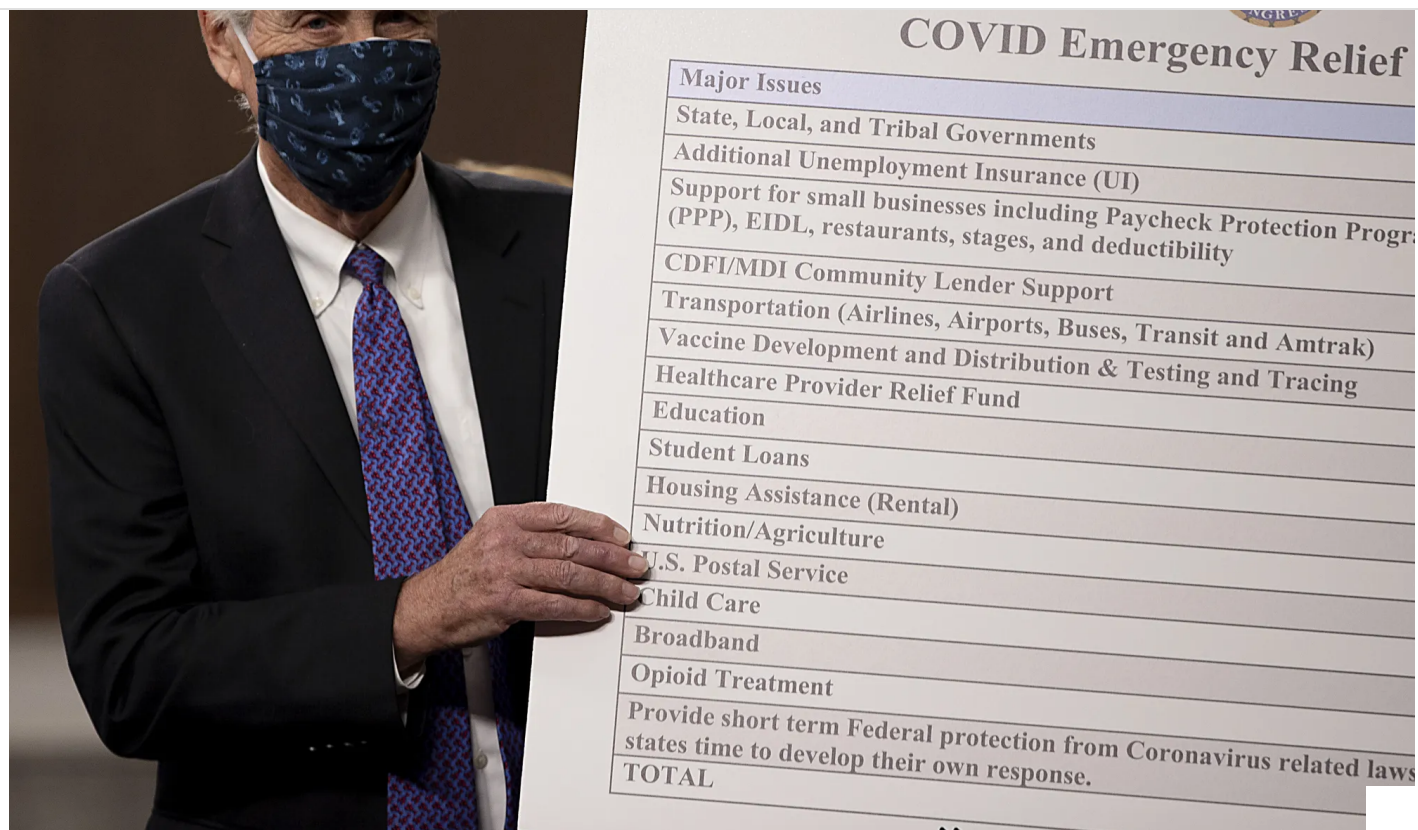
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That email came shortly after U.S. Rep. Judy Chu, a California Democrat on the House Small Business Committee that has oversight of the SBA, began putting pressure on the agency to publish additional data on loan forgiveness on all small businesses.

The goal was to see how much money went for payroll and job retention amid a new study finding most of the money went into the pockets of business owners. President Joe Biden also has promised to crack down on those who improperly obtained COVID-19 relief money.

In the early days of the pandemic, media attention forced some well-funded companies such as the Los Angeles Lakers and Shake Shack, which took a combined \$14.6 million in loans, to give the money back.

Chu in a phone interview said she was shocked and alarmed with USA TODAY's charter school findings and would urge the SBA to examine potential financial abuses in that industry.



Sen. Angus King, I-Maine, holds a sign detailing provisions of the new COVID-19 relief package proposal in December 2020. Congress in the early stages of the pandemic created the Paycheck Protection Program to provide uncollateralized, low-interest loans for small businesses. It ran through May 2021.

GETTY IMAGES

"The SBA and Treasury prioritized speed over scrutiny," when they rolled out the program, "and it's no secret that has led us to many issues," she said.

She said even if charter schools didn't lose any public funding, they most likely are eligible for loan forgiveness if they retained their employees.

But she said it was never the intent of Congress to forgive loans to companies, such as charter schools, that experienced no economic loss.

"It's terrible," Chu said about the charter schools. "But nonetheless, it is in the realm of what is permissible."

Charter schools were among the roughly 94% of all U.S. small businesses that took part in the PPP program, according to a recent NBER study that estimated most of the money went to business owners and the rest went to save jobs.

months before getting their loans.

A University of Texas study found more than 15% of the nearly 12 million loans distributed to businesses had at least one indication of potential fraud with a total cost to taxpayers of \$76 billion. The report outlines how borrowers, including criminals, could create fake companies, headcounts and salaries to capture a slice of the pandemic assistance, facilitated by the largely automated review of "fintech" lenders.

The story continues after the graphic.



Hi, David



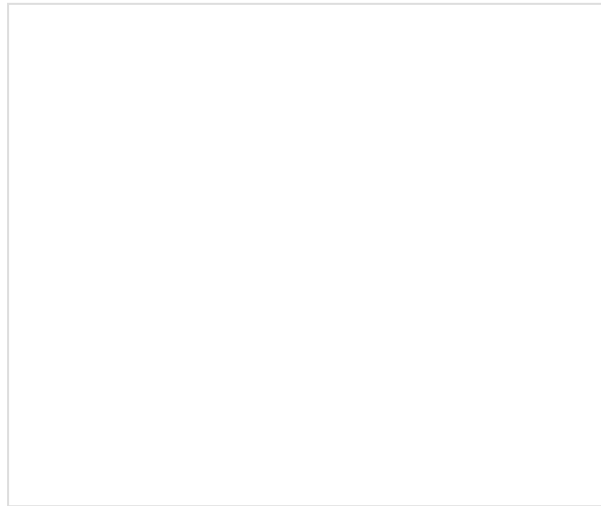
Small portion of PPP saved jobs

Congress created the PPP program in the early stages of the pandemic to provide uncollateralized, low-interest loans to small businesses.

Unable to quickly disburse the money, Congress used private banks, which were paid a 1% to 5% processing fee per loan.

However, the program, which ran through May 2021, was far from efficient.

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The researchers found up to 77% of all loan money flowed to business owners and company shareholders as well as creditors and suppliers of PPP-receiving firms. Researchers also found that Congress continually altered the rules so nearly every PPP loan qualified for forgiveness.

The report did not break down business sectors, such as charter schools.

"It did some good," said lead researcher David Autor from the Massachusetts Institute of Technology. "But it was for a low rate of return and a very high cost."

Autor, who said he supports charter schools, said those operators saw a chance to get free money from the government.

"They did what everyone else did, and that's problematic," he said.

Yet Autor said among the "misuses" of loan funds, charter schools weren't even "above the median of egregious."



Did charter school students benefit?

Today, 44 states and Washington, D.C., have 3.4 million students in roughly 7,700 charter schools, according to the National Alliance for Public Charter Schools in Washington, D.C. That's just more than 7% of all public school students.

records only show that the extra money went to more than 1,100 operators, and most of those businesses run a chain of schools.

Rees, of the National Alliance for Public Charter Schools, said the schools, on average, receive 70% of the public funding from local and state taxes that goes to traditional district schools, forcing charter operators to raise additional funds to cover rent, maintenance and utilities.

"PPP loans were a lifeline for charter schools, enabling them to pivot quickly to absorb the extra expenditures related to the pandemic such as providing laptops, Wi-Fi hotspots, and additional teacher and staff training," Rees said.

Rees, whose organization had its \$680,182 loan forgiven, said she had no problem with Primavera, headquartered in Chandler, Arizona, paying millions in shareholder distributions while also having its loan forgiven.



Nina Rees, president and CEO of the National Alliance for Public Charter Schools

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Two facts can co-exist. The school may have needed the PPP loan and the management company may have earned a dividend for its overall business performance. They are not the same.

Nina Rees, president and CEO of the National Alliance for Public Charter Schools

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"Two facts can coexist," she said. "The school may have needed the PPP loan and the management company may have earned a dividend for its overall business performance. They are not the same."

Chu, the California congresswoman, disagrees.

She said it was not the intent of the loan program for companies to give away millions of dollars to shareholders.



No oversight

Critics say charter schools are allowed to use less stringent auditing rules and have non-elected oversight boards, and their operators can make unlimited amounts of money through their budgets.



Primavera
founder
Damian
Creamer

While SBA officials declined repeated requests for interviews to USA TODAY, a cadre of public policy advocacy groups said they have met with the agency and are pressuring the SBA to take a second look at financially stable charter schools that had their loans forgiven and may have misappropriated the money.

They note that in addition to the forgiven loans, all U.S. charter schools had access to federal COVID-19-related grants to implement social distancing and to disinfect schools. (Traditional public schools were eligible for those grants but not PPP loans.)

Primavera, records show, accepted nearly \$2 million in federal COVID-19 relief funds in addition to getting a similar-size loan forgiven.

Damian Creamer, the school's founder, has received \$23.6 million in shareholder distributions since 2017, records show. He declined to comment.



A Primavera instructor teaches an online math class.

TOM TINGLE/THE REPUBLIC

Clare Crawford, senior policy adviser for In the Public Interest, which conducts research on how tax dollars are used, spent the past two years examining charter schools and PPP loans.

Her organization is among those pressuring the SBA to claw back money from charter schools because she alleges that many charters operators misused PPP money.

"There's no routine oversight to see what happened with the money," said Crawford, who blames state and federal officials.



USA TODAY's findings

USA TODAY's investigation into charter schools and PPP loans was based on IRS, SBA, state Departments of Education and charter school documents as well as more than a dozen interviews.

► The range of forgiven loans was \$150,746 to \$9.8 million. The largest went to River Springs Charter School in Temecula, California.

River Springs Superintendent Kathleen Hermsmeyer said her charter network, the largest in California, enrolled 1,000 more students after the pandemic began. She said the loan was used for technology, hiring more teachers and payroll, and the state didn't cover additional expenses for specialized charter schools like hers that provide remote or hybrid learning.

Her network and others have filed a class-action suit against the state for more money.



The Marco Island Charter Middle School Band performs in 2018 in the school gym. The school was among other charter schools in Florida that saw their PPP loans forgiven.

LANCE SHEARER/SPECIAL TO THE NAPLES DAILY NEWS

► About 10% of charter schools getting PPP loans lost public funding. Only Colorado, Georgia, Idaho, Missouri and Nevada slightly cut that funding during the health crisis, while the remaining states did not. However, Georgia and Missouri later restored all lost revenue, meaning about 93% of charter schools getting forgiven PPP loans lost no public funding.

Florida, at least \$67 million was forgiven for 92 charters, while in Arizona, nearly \$57 million was forgiven for 94 charters.

Delaware was last with a \$150,928 forgiven loan for a single school.



The Redding School of the Arts participates in the Redding Lighted Christmas Parade in 2020. California led all states with \$335 million in forgiven PPP loans for at least 268 charter schools.

MIKE CHAPMAN/RECORD SEARCHLIGHT

► At least 22 nonprofit companies that run charter schools and obtained loans in excess of \$2 million reported having more than 500 employees, above the federal cutoff to be considered a small business eligible for PPP loans. Of those, 13 schools had more than 600 employees, and one had 1,302.

► Among the 118 charter schools that had forgiven PPP loans in excess of \$2 million, the majority had financial records showing they didn't need the money because of large fund balances and wealthy donors for some charters.

What's next?

Aliya Sabharwal, campaign manager for Americans for Financial Reform, said her group and five other public policy organizations met in January with SBA Deputy Chief of Staff Arthur Plews.

The goal: Determine if any of the forgiven loans that her organization claims were improperly used could be clawed back.

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Maybe charter schools were eligible and they didn't break any rules and there was no outright fraud, but the spirit of the program was that it was explicitly for small businesses.

Aliya Sabharwal, campaign manager for Americans for Financial Reform

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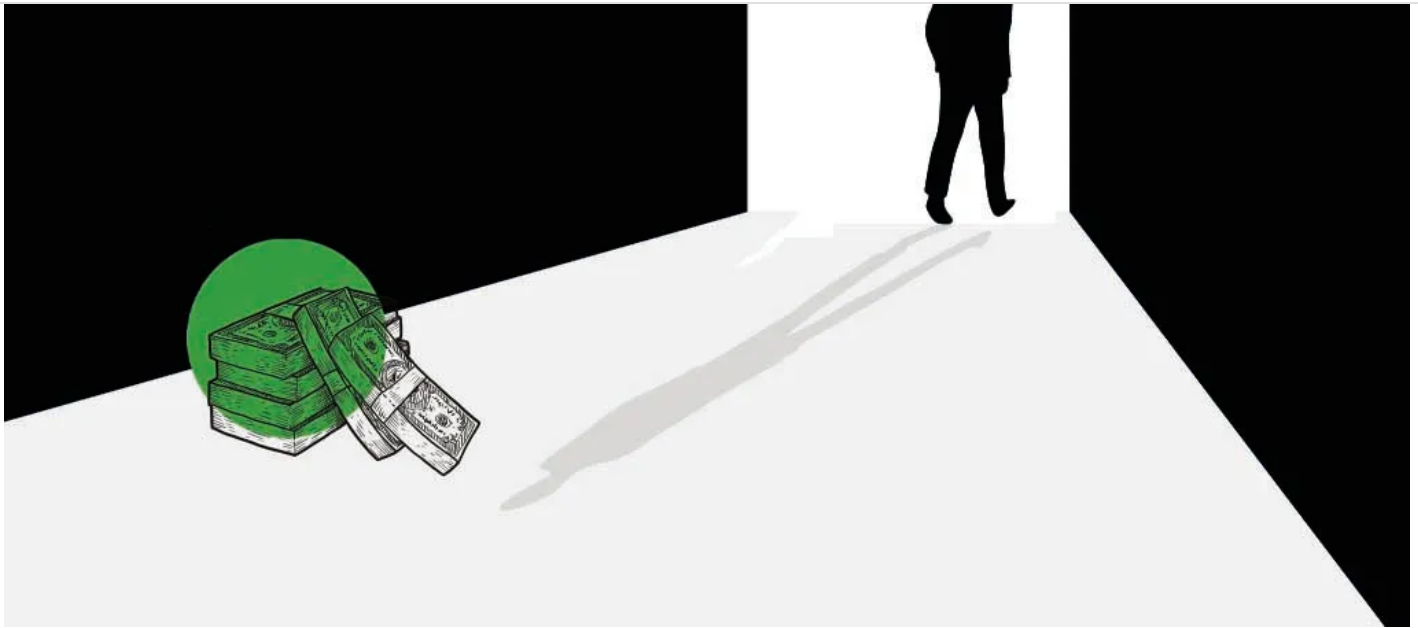


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Sabharwal, whose group works to fight racism in the country's financial system, said SBA officials indicated to them that they have the power to get money back if recipients misused funds.





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"Maybe charter schools were eligible and they didn't break any rules and there was no outright fraud, but the spirit of the program was that it was explicitly for small businesses," she said.

Plews did not respond to requests for comment.

Arlene Martínez, who is deputy executive director for Good Jobs First and is part of the group, said while she's hopeful the SBA will get some of the money back, government officials also told them that their "hands were tied under the former administration" on how much can be done.

"They still have a lot of power to make sure this does not happen again," said Martínez, whose group compiles data and promotes accountability in economic development.

Autor, the MIT economics scholar, said he expects to see more media scrutiny now that loans are being forgiven.

to shame everyone who needed to be shamed."

However, Chu said she has been assured by SBA officials that they have begun working through a massive backlog of fraud tips for the entire PPP loan program and are working with the Department of Justice.

"They have gotten thousands of tips," Chu said. "It tells me that many feel there could have been some underhanded businesses with loans."

Have a tip on business or investigative stories? Reach the reporter at craig.harris@usatoday.com or 602-509-3613 or on Twitter [@CraigHarrisUSAT](https://twitter.com/CraigHarrisUSAT) or linkedin.com/in/craig-harris-70024030/

Coming soon

- A small San Diego charter school chain that caters to low-income children could have used a PPP loan, but school leaders decided to turn it down for ethical reasons.
- The KIPP Foundation made \$27 million during COVID, so why did taxpayers pick up a near identical tab in PPP loans?

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